

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA



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06-15-07

Investigation 07-03-019
(Filed January 11, 2007)

Application 06-09-006
(Filed September 6, 2006)

Application 06-10-026
(Filed October 23, 2006)

Application 06-11-009
(Filed November 20, 2006)

Application 06-11-010
(Filed November 22, 2006)

Application 07-03-019
(Filed March 19, 2007)

Order Instituting Investigation to Consider Policies to Achieve the Commission's Conservation Objectives for Class A Water Utilities.

In the Matter of the Application of Golden State Water Company (U 133 E) for Authority to Implement Changes in Ratesetting Mechanisms and Reallocation of Rates.

Application of California Water Service Company (U 60 W), a California Corporation, requesting an order from the California Public Utilities Commission Authorizing Applicant to Establish a Water Revenue Balancing Account, a Conservation Memorandum Account, and Implement Increasing Block Rates.

Application of Park Water Company (U 314 W) for Authority to Implement a Water Revenue Adjustment Mechanism, Increasing Block Rate Design and a Conservation Memorandum Account.

Application of Suburban Water Systems (U 339 W) for Authorization to Implement a Low Income Assistance Program, an Increasing Block Rate Design, and a Water Revenue Adjustment Mechanism.

Application of San Jose Water Company (U 168 W) for an Order Approving its Proposal to Implement the Objectives of the Water Action Plan.

**MOTION OF THE UTILITY REFORM NETWORK,
THE DIVISION OF RATEPAYER ADVOCATES,
AND CALIFORNIA WATER SERVICE COMPANY
TO APPROVE AMENDED SETTLEMENT AGREEMENT
(AMENDED SETTLEMENT AGREEMENT ATTACHED)**

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Before the Public Utilities Commission of the State of California

Order Instituting Investigation to Consider Policies to Achieve the Commission's Conservation Objectives for Class A Water Utilities.	Investigation 07-01-022 (Filed January 11, 2007)
In the Matter of the Application of Golden State Water Company (U 133 E) for Authority to Implement Changes in Ratesetting Mechanisms and Reallocation of Rates.	Application 06-09-006 (Filed September 6, 2006)
Application of California Water Service Company (U 60 W), a California Corporation, requesting an order from the California Public Utilities Commission Authorizing Applicant to Establish a Water Revenue Balancing Account, a Conservation Memorandum Account, and Implement Increasing Block Rates.	Application 06-10-026 (Filed October 23, 2006)
Application of Park Water Company (U 314 W) for Authority to Implement a Water Revenue Adjustment Mechanism, Increasing Block Rate Design and a Conservation Memorandum Account.	Application 06-11-009 (Filed November 20, 2006)
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I. INTRODUCTION

Pursuant to Rule 12.1 of the Commission's Rules of Practice and Procedure (Rules) and the May 29, 2007, Assigned Commissioner's Ruling that modified the procedural schedule (5/29/07 Ruling),¹ The Utility Reform Network (TURN), the

¹ Administrative Law Judge's Ruling Consolidating Application Of San Jose Water Company, Modifying Schedule And Addressing Phase I Hearings (May 29, 2007).

Division of Ratepayer Advocates (DRA), and California Water Service Company (Cal Water) (the Parties) submit this Motion to Approve the Amended Settlement Agreement Between The Utility Reform Network, the Division of Ratepayer Advocates, and California Water Service Company on WRAM & Conservation Rate Design Issues (Amended Settlement).

On April 23, 2007, DRA and Cal Water filed a Settlement Agreement On WRAM and Conservation Rate Design Issues (4/23/07 Settlement) that proposed a Trial Program consisting of conservation rate designs for most residential and non-residential customers, Water Revenue Adjustment Mechanisms, and Modified Cost Balancing Accounts, in most of Cal Water's districts.² In the attached Amended Settlement, the Parties propose to modify the Trial Program such that the rate design for residential customers in seven of Cal Water's districts includes a decreased meter (or service) charge, in addition to the tiered rates originally proposed in those districts.³

The Amended Settlement fulfills the criteria that the Commission requires for approval of such settlements in that it is reasonable in light of the whole record, consistent with the law, and in the public interest. For these reasons, the Commission should grant this Motion and adopt the proposed Amended Settlement.

II. PROCEDURAL BACKGROUND

In a general rate case (GRC) for eight of Cal Water's districts, the Commission ordered Cal Water to file an application as follows:

Cal Water shall within 60 days file a new application that addresses the goals of the Water Action Plan by proposing an increasing block rate design for each of the districts in this

² Conservation rates are not proposed for two small districts (Kern River Valley and Redwood Valley) and one sub-district the Fremont Valley sub-district in Antelope Valley).

³ The tiered rates proposed in the 4/23/07 Settlement for these seven districts are different from the tiered rates proposed in the Amended Settlement because the rates had to be redesigned to take into account the decreased meter charges.

general rate case for years 2007/2008 and 2008/2009, and an accompanying mechanism to decouple sales from revenues.⁴

On October 23, 2006, Cal Water filed its Application to Implement Water Action Plan Conservation Objective (Application or A.06-10-026) for all twenty-four of CWS' districts.⁵ In its Application, Cal Water requested: (1) a Water Revenue Adjustment Mechanism (WRAM) that decouples sales and revenues; (2) an increase in conservation program expenditures to a level of 1.5% of total revenues;⁶ (3) a conservation memorandum account to track water conservation expenditures and associated administrative costs; (4) increasing block rates for single family residential customers, and; (5) "such other and further relief as the Commission may deem appropriate."⁷ On November 27, 2006, DRA filed a protest to the Application identifying several issues of concern, and Cal Water filed a reply to DRA's protest on December 6, 2006.

In the Commission order opening this proceeding, the Order Instituting Investigation to Consider Policies to Achieve the Commission's Conservation Objectives for Class A Water Utilities adopted on January 11, 2007 (the OII), the Commission consolidated A.06-10-026 and several other applications for conservation rates into the above-captioned proceeding. On January 29, 2007, parties filed responses to the preliminary scoping memo contained in the OII, and a prehearing conference (PHC) was held on February 7, 2007. On March 8, 2007, the Commission adopted a final scope and two-phased schedule for this proceeding in an Assigned Commissioner's Ruling and Scoping Memo (Scoping Memo). The Scoping Memo defined Phase 1 as follows:

⁴ D.06-08-011 (August 24, 2006), *mimeo*, at 66 (Ordering Paragraph (OP) 3).

⁵ Application of California Water Service Company (U 60 W), a California Corporation, requesting an order from the California Public Utilities Commission Authorizing Applicant to Establish a Water Revenue Balancing Account, a Conservation Memorandum Account, and Implement Increasing Block Rates, A.06-10-026 (October 23, 2006).

⁶ CWS proposed this increase to implement the Best Conservation Management Practices (BMPs) of the California Urban Water Conservation Council (CUWCC). Application at 2, 5.

⁷ Application at 5.

The first phase of this proceeding will address rate-related conservation measures, including the parties' increasing block rate and Water Revenue Adjustment Mechanism (WRAM) proposals. Any settlements and motions proposing their adoption under Rule 12.1 of the Commission's Rules of Practice and Procedure shall be filed on or before April 23, 2007. In order to assess how any settlement addresses the rate-related conservation objectives identified in the OII, I will order the settling parties to discuss relevant issues in the motion proposing the settlement agreement and/or the settlement.⁸

Pursuant to Rule 12.1(b), an all-party settlement meeting was held on April 16, 2007, to address the conservation rate design applications of Cal Water, as well as those of Golden State Water Company (A.06-09-006), Park Water Company (Park) (A.06-11-009), and Suburban Water Systems (Suburban) (A.06-11-010).⁹ DRA and Cal Water filed a Settlement Agreement On WRAM and Conservation Rate Design Issues on April 23, 2007 (4/23/07 Settlement).

On May 16, 2007, TURN and Cal Water filed a Motion to Modify Schedule in order to allow TURN, Cal Water, and DRA to negotiate an amended settlement that would resolve TURN's opposition to the 4/23/07 Settlement. In an Administrative Law Judge's Ruling Consolidating Application Of San Jose Water Company, Modifying Schedule And Addressing Phase I Hearings filed May 29, 2007 (5/29/07 Ruling), a schedule was established that, among other things, created Phase 1A in this proceeding and allowed TURN, Cal Water, and DRA to file an amended settlement on June 15, 2007. An all-party settlement conference was held at the Commission on June 13, 2007 to discuss several applications in this proceeding, including Cal Water's application.

⁸ Scoping Memo at 3 (footnote omitted).

⁹ Notice Canceling 4/11/07 Settlement Meeting and Setting 4/16/07 Settlement Meeting (April 6, 2007). The participants of the meeting agreed that another all-party settlement meeting would not be held prior to April 23, 2007, the deadline for filing proposed settlements agreements.

III. SPECIFIC QUESTIONS IN THE DATE SCOPING MEMO

The March 8, 2007 Scoping Memo states that, in a proposed settlement agreement and/or the motion to adopt the proposed settlement, settling parties must provide certain information and respond to specific questions. The parties respond to each of these questions in turn.

A. Company Information For Designing Conservation Rates and Related WRAM

“The motion and/or settlement agreement shall state whether the company has a low-income affordability program, metered service, and monthly or bimonthly bills.”¹⁰

The Commission approved a Low-Income Ratepayer Assistance Program (LIRA) for all of Cal Water’s districts in D.06-11-053.¹¹ The LIRA program provides a monthly discount of 50% off the monthly service charge for the following customers: (1) eligible residential customers with 5/8”x 3/4” metered service or flat rate (non-metered) service, up to \$10.00 a month, and; (2) “qualified non-profit group living facilities, agricultural employee housing facilities, and migrant farm worker housing centers” up to \$20.00 a month.¹² Residential customers are eligible if they meet the income level and other requirements of the California Alternative Rates For Energy (CARE) program.¹³

All of the residential customers in 15 districts have metered service connections, while the other 9 districts also have residential customers with flat-rate service connections. The current rates and the frequency of billing for each of CalWater’s districts is included in the Amended Settlement (*see* Appendix A, Settlement at Attachment 3.).

¹⁰ Scoping Memo at 3.

¹¹ D.06-11-053.

¹² *Id.*, *mimeo*, at 4.

¹³ *Id.*

B. Impact of Settlement on Low-Income Affordability

“The motions shall address the impact of the settlement agreements on low-income affordability.”¹⁴

As discussed in greater detail below, the Amended Settlement on WRAM & Rate Design proposes an increasing block rate design for residential customers in 22 of Cal Water’s districts, with two districts and one sub-district retaining the conventional single quantity rate.

The proposed tiered rate design establishes tiers based on the consumption patterns of each district. The first tier is set using a proxy of indoor water use based on seasonal indicators and is priced at approximately 5% less than the single quantity rate that would be adopted under standard rate design. The second tier is also based on seasonality and extends from the top of Tier 1 to the mid point between the weather adjusted annual monthly and summer averages. Tier 2 is priced to be approximately the single quantity rate that would be adopted under standard rate design. The breakpoints and pricing of Tiers 1 and 2 ensure that average and low-use customers see slight decreases or no changes to their bills; they also take low-income affordability into account in that they decrease the likelihood that larger households will enter the higher tiers too soon.

One of the reasons that the 4/23/07 Settlement filed by DRA and Cal Water did not propose a change to the meter charge for residential customers is that lowering the meter charge limits the ability to implement significant rate differences between tiers (limits the percent difference between tiers) while both maintaining revenue neutrality and minimizing ratepayer impact. If the meter charge is decreased, the fixed costs covered in that charge must be shifted to the quantity charge.

In response to TURN’s concern about populous districts that had higher meter charges, DRA and Cal Water reconsidered the proposed rate design in certain Cal Water districts. As a result, the Parties propose an Amended Settlement in which the service

¹⁴ Scoping Memo at 3.

charge for residential customers is reduced in seven districts, and the increasing block rates were maintained. In particular, the Parties accommodate TURN's desire to reduce the fixed costs recovered in a fixed service charge in districts (1) with large populations, and (2) with meter/service charges of \$10/month or more for 5/8" x 3/4" customers. The Parties have maintained the percent difference between the tiers in the Amended Settlement as that proposed in the 4/23/07 Settlement, but incorporating TURN's criteria results in changes to the bill impact analysis. Under the Amended Settlement, customers with low consumption see greater bill decreases and customers with high consumption see greater bill increases than the rate structure originally proposed in the 4/23/07 Settlement. The Parties still maintain revenue neutrality, however, defined as when revenues are within 1% of target revenues (target revenues refers to the portion of revenue requirement to be recovered from the quantity charge(s) under the proposed rate design). The rate designs proposed in the 4/23/07 Settlement for the remaining Cal Water districts are unchanged in the Amended Settlement.

C. Proposed Conservation Rate Design

“The motion and/or settlement shall discuss how increasing block rate levels and the percentages between them were determined and shall provide the settling parties’ position on whether the increase in rates between tiers will effectively promote conservation.”¹⁵

The Amended Settlement proposes conservation rate designs for residential and non-residential customers in most of Cal Water’s districts. The proposed rate designs meet the Commission’s Water Action Plan objective of setting rates that are more closely aligned with long-run marginal cost and that encourage conservation. The conservation rates provide customers with a greater financial incentive to conserve water. With regard to the proposed increasing block rates in particular, customers will receive more accurate price signals because as they consume more their average cost per unit will increase. Additionally, because the tier break points are based on seasonal indicators of

¹⁵ Scoping Memo at 3-4.

consumption patterns specific to each district, customers will receive timely and appropriate signals to reduce their use. In other words, bills will increase in summer months, as they currently do, because of higher consumption that is largely attributable to outdoor use. Since the proposed rate structure discourages use beyond indoor use, customers will have an economic incentive to reduce their outdoor use.

The parties do not propose conservation rates for other customer classes, such as: residential flat rate service, service to privately owned fire protection systems, metered recycled water service, and reclaimed metered service, because these classes do not represent a significant enough portion of Cal Water's revenues to warrant the extensive data analysis that would be required to develop conservation rates.

1. Residential Rate Design

For residential customers, conservation rate designs are proposed for 22 of Cal Water's 24 districts and consist of increasing block rates of two and three tiers. (Residential customers in two small districts and one sub-district do not have proposed conservation rates under this Trial Program as discussed below.) The tiers and tier rates are based on the consumption patterns and seasonality of each district. The meter charges for seven districts are also reduced. For the remaining districts, the parties propose to implement increasing block rates before making changes to the meter charges.

For the purposes of designing conservation rates for residential customers, Cal Water's districts are categorized into three groups. Group 1 consists of seven districts identified by TURN. Group 3 consists of two small districts (Kern River Valley and Redwood Valley) and one sub-district the Fremont Valley sub-district in Antelope Valley, all of which are service areas with very small numbers of residential customers that are currently subsidized by CWS' Rate Support Fund (RSF) adopted in D.06-08-011. Group 2 consists of all other districts except for those in Group 1 and Group 3.¹⁶

¹⁶ In the 4/23/07 Settlement, the districts for which conservation rates were proposed were allocated to Groups 1 and 2 according to whether they contained non-metered residential customers. The Amended Settlement modifies this approach by allocating districts according to whether the service charge for residential customers is reduced.

Groups 1 and 2 include districts in which all residential customers have metered service, as well as districts in which some residential customers are metered and others are flat-rate customers that Cal Water is in the process of transitioning into metered customers.

In addition, Groups 1 and 2 have two-tiered or three-tiered increasing quantity rates depending on the seasonal differences of consumption in each district. For districts with significant seasonal differences, defined as areas in which the average summer use of residential customers is more than twice the average winter use of those customers, the Amended Settlement establishes three tiers of increasing block rates. The consumption range for the first tier is designed to capture indoor water use,¹⁷ and is intended to encompass residential customers with low to average consumption. The consumption range for the second tier goes up to the mid-point between the average monthly annual consumption (weather-adjusted) and the average monthly summer consumption, while all consumption over Tier 2 is considered Tier 3. In determining the quantity rate for each tier, the Parties applied the following principles: the first tier rate is approximately 95% of the current single quantity rate; the second tier rate is approximately the current, single quantity rate (but adjusted up or down to achieve revenue neutrality for the rate design), and; the third tier rate is approximately 20% above the second tier rate.

For the Group 1 and 2 districts with less significant seasonal differences, defined as areas in which the average summer use of residential customers is less than twice the average winter use of those customers, the Amended Settlement establishes two tiers of increasing block rates. The consumption range for the first tier is the same as for three-tiered districts, with all additional consumption considered Tier 2. The quantity rates for these tiers are generally set so that the second tier rate is 20% greater than the first tier rate, and approximate revenue neutrality is maintained.

For districts in Groups 1 and 2 that contain both metered and non-metered residential customers, the same principles were applied to develop the consumption

ranges for the three tiers, but the percentage differences between the rates for the tiers are minimized to take into account that only metered customers will encounter the new conservation price signals. The impact of minimizing the percent difference between tiers can be seen in the average unit graphs included in the bill impact analysis (*see* Appendix A, Settlement at Attachment 1.). Flat-rate (non-metered) customers in these districts will encounter the conservation price signal as they are transitioned to meters.

Finally, the districts in Group 3 contain very small numbers of customers and consist of Kern River Valley, Redwood Valley, and the Fremont Valley sub-district in Antelope Valley. Residential conservation rates are not proposed for Group 3 for several reasons. The Commission recently adopted the RSF in D.06-08-011 to address water affordability in these districts where critical water infrastructure improvements are stressing the ability of these predominantly lower income communities to pay for the cost of water service. The RSF provides rate assistance credits of \$20 per customer per month in Kern River Valley district, \$8.50 per customer per month in the Fremont Valley service area, and in the Redwood Valley District it provides \$17 per customer per month in the Lucerne rate area, \$6.05 per Ccf (one-hundred cubic feet) in the Coast Springs rate area, and \$1.76 per Ccf in the Unified rate area. The RSF is supported by a one penny surcharge on all units of water sold company-wide.¹⁸

Implementing the RSF along with inverted block rates could be confusing to customers in that it would be too many changes in a short period of time. It also makes developing a conservation rate design within the timeline set in this proceeding prohibitive because of the need to coordinate the design of the rates with the RSF and the fact that average per customer consumption is already low in these districts and quantity

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¹⁷ The proxy for indoor water use is the midpoint between the median and the average winter use.

¹⁸ *See, e.g.,* D.06-08-011, *mimeo*, at 7-14. “The new RSF would be funded by a volumetric surcharge on every unit of water Cal Water sells in all 24 districts, and a per customer charge for unmetered customers on a flat rate. The duration of the RSF would be this three-year GRC cycle, and the RSF credits and surcharges would be booked into a single balancing account.” *Id.* at 8.

rates are high. Finally, the Parties note that the number of customers in these areas and their consumption is small relative to the size of Cal Water as whole.

2. Non-Residential Rate Design

For non-residential customers, the Amended Settlement retains the single quantity rate for most of Cal Water's districts because developing increasing block rates for such customers is not currently feasible in most districts. Developing increasing block rates would likely require reclassification of these customers based on customer and consumption data that is not available at this time. One exception is the Stockton district, which already had tiered rates for non-residential customers. In Stockton, it was possible to lower the service charge while preserving the adopted proportional difference between tier one and tier two. The other exceptions are the Kern River Valley, the Redwood Valley, and the Fremont Valley sub-district in Antelope Valley.

In all other districts, the Parties propose recovering more fixed costs in the quantity charge than under the current rate designs. In particular, the Parties propose moving some of the fixed costs currently recovered through the meter charge so that they are recovered instead through the quantity charge. The resulting higher quantity charge provides customers with an incentive to reduce consumption. The specific amount of fixed costs moved to the quantity charge in a particular district will vary depending on the consumption patterns of the non-residential customers in that district. Generally, however, the Amended Settlement reduces meter charges by approximately 10% to 25%, with corresponding increases in the quantity charge to achieve revenue neutrality and minimize impact to ratepayers.

D. Elasticity of Demand

“The motion and/or settlement shall provide data on elasticity of demand, *e.g.*, how do they calculate it, what assumptions were included, what studies were referenced, and what timeframe was used.”¹⁹

¹⁹ Scoping Memo at 4.

Cal Water did not propose to apply a price elasticity factor in its conservation rates, and the Parties agree in the Amended Settlement that there will not be a price elasticity factor applied to the calculation of the rates; the anticipated demand response is not built into the rates.

The literature on the elasticity of water focuses on long run elasticity, and most demand change studies focus on response to a single price signal or events such as droughts. Parties to the Amended Settlement modeled various assumptions on demand change to test revenue neutrality and evaluate the impact of the proposed decoupling mechanisms. Parties are concerned about the impact of multiple and simultaneously-implemented price signals from lower meter charges, tiered rates, and in those districts with pending GRCs, changes in the revenue requirement. Consequently, the percent difference between tiers for districts where customers face a price signal when transitioning from a flat to metered tariffs was minimized.

The Parties note that Cal Water has agreed to collect data in an electronic format such as Microsoft Excel or Access, including billing and usage data by meter size, by month, and by each individual service area in each district (if applicable), for use in analyzing customer response to increasing block rate design.

E. Effect of Proposed Rate Structures

“The parties shall provide charts which illustrate the effect of the proposed rate structures, such as marginal and/or average price curves. These charts shall include fixed and consumption charges.”²⁰

Attachments 1 and 2 to the Amended Settlement contain numerous tables and charts that illustrate the impact of the proposed conservation rates on residential and non-residential customers in the 22 Cal Water districts impacted by the Amended Settlement.

²⁰ Scoping Memo at 4.

F. Seasonal Rates

“If the settlement agreements do not include seasonal rates, the parties shall state why they believe they are unnecessary.”²¹

Parties agree that, as discussed above, the parameters for developing residential conservation rates incorporate the impact of the seasonality of water use by using seasonal averages to establish break points.

G. Mechanisms to Decouple Sales from Revenues

“The parties shall state whether the WRAM includes all or a subset of revenue and the basis for that determination.”²²

In the Amended Settlement, the Parties agree that under the existing regulatory framework for Cal Water, there is a relationship between sales and revenues, so that as water sales decrease, Cal Water’s revenues generally decrease, and vice versa. The Parties agree that a Water Revenue Adjustment Mechanism that ensures the recovery of certain costs regardless of sales volumes significantly reduces the relationship between sales and revenues. The WRAM and MCBA have been structured to minimize the impact of individual customer consumption patterns upon the utility’s fixed cost recovery while ensuring that the utility does not over or under recover most of its variable costs that depend on consumption volumes. Parties understand that CalWater believes that a rate design that is intended to promote conservation could reduce earnings absent a WRAM.

1. Water Revenue Adjustment Mechanisms (WRAMs)

The specific kind of WRAM proposed in the Amended Settlement will ensure recovery of the adopted revenue target for costs recovered through the quantity charge under the proposed rate design.

²¹ Scoping Memo at 4.

²² Scoping Memo at 4.

Under the Commission's current, traditional rate design for water utilities, 50% of the fixed costs authorized by the Commission are generally recovered through the meter charge (also known as the service charge or the fixed charge). The remaining 50% of fixed costs, as well as 100% of variable costs, are generally recovered through the quantity charge (also known as the consumption charge or the volumetric charge).²³ The proposed WRAM in the Amended Settlement does not include meter charges and other revenues not based on water consumed (e.g. unmetered (flat) rates, fire service and other non-general metered service).

2. Modified Cost Balancing Accounts (MCBAs)

Cal Water currently has cost balancing accounts (herein referred to as Incremental Cost Balancing Accounts or ICBAAs) for certain variable costs in each district – purchased power, purchased water, and pump taxes. These ICBAAs may not adequately capture changes in the cost of service that may result from a conservation rate design, however. For water utilities, the existing balancing accounts reflect changes in unit price (in this case, the unit price of purchased power, purchased water, or pump taxes). The costs of water production authorized by the Commission are based on both unit price and the amount of water sold, however. If unit prices remain the same, but actual sales are lower than forecasted, the actual cost for producing water will be lower than anticipated. Because an ICBA does not track these lower costs, the company receives an unanticipated benefit.

Thus, even when coupled with a WRAM, an ICBA will not remove Cal Water's disincentive to sell water at or above forecasted levels. For example, if sales are below the forecast, a WRAM will reflect that the actual revenue collected from the quantity charges is lower than anticipated revenue (the revenue that would have been collected from the quantity charges if forecasted sales were met). On the cost side, however, an

²³ Not all of the rate designs in CWS' districts have maintained this ratio due to Commission-approved cost allocations designed to minimize the customer bill impacts when rates must be adjusted.

ICBA will not reflect any variation in cost (in this case, a decrease in cost) if unit prices have not changed.

The Amended Settlement therefore proposes a “modified” cost balancing account (MCBA) that would capture variations in cost due to either changes in unit price or changes in consumption. Under an MCBA, therefore, ratepayers will get the benefit of actual cost savings that result from lower unit prices and reduced consumption (as well as actual cost increases whether due to higher unit prices or increased consumption). In any event, the utility or ratepayer will neither be benefited nor harmed by changes in water consumption when conservation rates are implemented.

3. How the Decoupling Mechanisms Will Work Together

As presented in the Bear Gulch example (Attachment 1) in the Amended Settlement, the proposed WRAM will track the difference between adopted revenue and actual revenues. The differences between adopted and actual variable costs are tracked in MCBAs. In particular, the proposed MCBAs will track the difference between adopted and actual variable costs for purchased power, purchased water, and pump taxes.

Parties agree that the desired outcome of and purpose for using these WRAMs and MCBAs are to ensure that the utility and ratepayers are proportionally affected when conservation rates are implemented. For the purposes of the Amended Settlement, a proportional impact is as follows: if consumption is over or under the forecasted level, the costs or savings resulting from changes in consumption should be accounted for in a way such that neither the utility nor ratepayers (as a whole) are harmed or benefited. Together, the balances of a WRAM and the MCBAs in a district will be combined so that an under-collection of revenues is recovered through a surcharge on ratepayers, and an over-collection of revenues is given back to ratepayers through a surcredit.

H. Effective Date of Conservation Rate Design

“The parties shall justify whether the conservation rate design proposal should be effective after completion of this proceeding or after the next GRC.”²⁴

The Trial Program is to become effective 90 days following a decision by the Commission adopting the Amended Settlement. The Trial Program will be reviewed in the GRC applications that Cal Water files subsequent to the effective date of the Trial Program. At that time, Cal Water, DRA, and the Commission will be able to make adjustments to the conservation rates as appropriate.

I. Customer Education Initiatives

“The parties shall propose customer education initiatives necessary to implement the settlements, including outreach efforts to limited English proficiency customers, monitoring programs to gauge the effectiveness of the adopted conservation rate design, and recommendations on how these results will be reported to the Commission.”²⁵

Cal Water agrees to work with DRA and other consumer organizations to develop a customer education and outreach program associated with implementing the new conservation rate design. The program will include notices in English, Spanish, and in other languages prominently used by Cal Water customers. Cal Water will make conservation rate information available on its website in the same languages. Cal Water agrees to use accessible means of communication to meet the needs of hearing and/or vision-impaired customers. Cal Water agrees to meet with disability rights advocates to determine the best way to make this information accessible to customers with disabilities.

Cal Water will provide a notice to Community Based Organizations (including organizations representing the interests of persons with disabilities) within its service areas so that they can publicize the conservation rate design. Cal Water will submit copies of the customer notices to the Division of Ratepayer Advocates for comment prior

²⁴ Scoping Memo at 4.

²⁵ Scoping Memo at 4.

to distribution. Finally, the customer education and outreach program will be memorialized in a Memorandum of Understanding.

IV. THE SETTLEMENTS MEET THE CRITERIA UNDER RULE 12.1

Rule 12.1 requires that a settlement be “reasonable in light of the whole record, consistent with law, and in the public interest.” The Amended Settlement on WRAM and Conservation Rate Design Issues meets these requirements. First, the Amended Settlement is reasonable in that it takes into account the requirements of D.06-08-011, principles of conservation rate design as enumerated above, and underlying data unique to these districts including consumption and billing data. Extensive settlement negotiations were accomplished at arm’s length over the course of months. The Parties fully considered the facts and the law relevant to this case, and reached reasonable compromises on most of the issues raised in Cal Water’s Application.

Secondly, the Parties are aware of no statutory provision or prior Commission decision that would be contravened or compromised by the Amended Settlement. The issues resolved in the Amended Settlement are within the scope of the proceeding. The Amended Settlement produces just and reasonable rates.

Finally, the Amended Settlement is in the public interest. The principal public interest affected by this proceeding is delivery of safe, reliable water service at reasonable rates. The Amended Settlement advances this interest because it fairly balances Cal Water’s opportunity to earn a reasonable rate of return against the needs of consumers for reasonable rates and safe, reliable water service. The Amended Settlement is also consistent with the Commission’s Water Action Plan objective for setting rates that balance investment, promote conservation, and ensure affordability. In addition, Commission approval of the Amended Settlement will provide speedy resolution of contested issues, will save unnecessary litigation expense, and will conserve Commission resources. The Commission has acknowledged that “[t]here is a strong public policy favoring the settlement of disputes to avoid costly and protracted litigation.” *Re PG&E*, D. 88-12-083, 30 CPUC 2d 189, 221.

In sum, the Parties believe that the Amended Settlement and the related documentation convey sufficient information for the Commission to discharge its future regulatory obligations. Thus, taken as a whole, the Amended Settlement satisfies the Commission's standards for approving settlements presented to it.

The Parties have entered into this Amended Settlement on the basis that the Commission's adoption not be construed as an admission or concession by any Party regarding any fact or matter of law in dispute in this proceeding. Furthermore, the Parties intend that the Commission's adoption of this Amended Settlement not be construed as any statement of precedent or policy of any kind for or against them in any current or future proceedings. Finally, the Amended Settlement is an integrated agreement, so that if the Commission rejects any portion of the Amended Settlement, each Party has a right to withdraw.

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V. CONCLUSION

For the reasons discussed above, DRA, TURN and Cal Water urge the Commission to approve the Amended Settlement on WRAM and Conservation Rate Design Issues proposing to implement increasing block rates for most residential customers, decreases in the service charge for some residential customers and most non-residential customers, Water Revenue Adjustment Mechanism balancing accounts, and Modified Cost Balancing Accounts.

Respectfully submitted,
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Vice President
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June 15, 2007

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of “**MOTION OF THE UTILITY REFORM NETWORK, THE DIVISION OF RATEPAYER ADVOCATES, AND CALIFORNIA WATER SERVICE COMPANY TO APPROVE AMENDED SETTLEMENT AGREEMENT**” and **Attachments in I.07-01-022; A.06-09-006; A.06-10-026; A.06-11-009; A.06-11-010 and A.07-03-019**”, et al. by using the following service:

[X] **E-Mail Service:** sending the entire document as an attachment to all known parties of record who provided electronic mail addresses.

[X] **U.S. Mail Service:** mailing by first-class mail with postage prepaid to all known parties of record who did not provide electronic mail addresses, if any.

Executed on **June 15, 2007** at San Francisco, California.

/s/ HALINA MARCINKOWSKI

Halina Marcinkowski

N O T I C E

Parties should notify the Process Office, Public Utilities Commission, 505 Van Ness Avenue, Room 2000, San Francisco, CA 94102, of any change of address and/or e-mail address to insure that they continue to receive documents. You must indicate the proceeding number on the service list on which your name appears.

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